

Date: May 10, 2005
To: Members of Assembly Budget Subcommittee No. 2
From: Robert Manwaring
Subject: Economic Impact Aid

In our *Analysis of the 2004-05 Budget Bill*, LAO recommended revising and simplifying the funding formula for Economic Impact Aid (EIA), in order to better meet districts' needs with regard to English learner (EL) and low-income students. It has recently come to our attention that the California Work Opportunity and Responsibility to Kids (CalWORKs) data upon which EIA calculations are based may no longer be readily available, which further highlights the need to revisit the EIA funding formula.

CalWORKs Data Collection Procedures Have Changed. Previously, county welfare departments (CWDs) provided child-specific information on the total number of children in CalWORKs families to county offices of education (COEs). The COEs then matched this information to local education agencies (LEAs) for the Department of Education (SDE) to use in calculating each LEA's EIA funding.

As of December 2004, this process has changed in two significant ways:

- The CWDs will no longer send CalWORKs data to COEs, and thus county-level child counts will no longer be matched to LEAs.
- The CWDs will only collect data on children in CalWORKs families receiving cash aid above the poverty level, not on those in CalWORKs families below the poverty level.

According to the Department of Social Services (DSS), these changes are in response to meeting minimum federal data reporting requirements and to concerns about the security of confidential data.

The SDE May Not Have Access to the Data Necessary to Compute EIA Funding Allocations. The DSS has stated that in order to get LEA-level counts, SDE programmers may run data matches on site at the DSS offices, but that data files will no longer be sent to COEs or SDE. The SDE has indicated that conducting this matching process on site may not be feasible, and will certainly be time and labor intensive. Furthermore, data for a portion of CalWORKs children will not even be available in the DSS files, as CWDs are no longer submitting data on children in CalWORKs families below the poverty level. It appears that under this new procedure, SDE will have no way to account for those children.

We would suggest that the budget subcommittees ask SDE and DSS for additional information to verify our concerns. If in fact the counties will no longer be able to effectively collect CalWORKs data, then the Legislature should consider alternative measures.

Possible options that Legislative staff may want to explore include:

- ***Base EIA Funding on Title I Data Instead of CalWORKs Counts.*** Use Title I student counts to determine EIA funding levels. We think that this might be the best long-term solution, but suggest making this transition part of a larger reform to the EIA funding formula.
- ***Change Statute to Require DSS to Provide the CalWORKs Data.*** Investigate the feasibility of requiring DSS to revise its procedures so that SDE has access to the CalWORKs data necessary to compute EIA funding levels.
- ***Use Free/Reduced Lunch Data as a Proxy.*** Revise the EIA funding formula to use a different indicator of poverty, such as the Federal Poverty Index or free and reduced price lunch counts. In order to make this transition, the state would have to make additional changes to the formula. Currently, over three million students are eligible for a subsidized meal, while less than 600,000 students qualify for CalWORKs. Thus, using these data would substantially broaden the targeted student population.
- ***Remove Poverty Measure From Formula.*** Remove the poverty factor from the EIA formula and base EIA funding solely on counts of EL students. Districts report that they use around 85 percent of these funds on EL services. However, relying solely on EL counts would substantially change the funding distribution and may not recognize the multiplicative difficulty of serving EL students who are also poor.
- ***Use Current-Year Data Again.*** Use October 2003 CalWORKs data for 2005-06 EIA calculations. The SDE has indicated that this is the option it will pursue if no legislative action is taken. This would only be a one-year solution, and would disadvantage any district with increasing numbers of poor students.

We are available to assist in exploring any of these options. If you have any follow-up questions, please contact Rachel Ehlers at 319-8330 or Rachel.Ehlers@lao.ca.gov.